

# GAMBLING ON DEVELOPMENT

WHY SOME COUNTRIES WIN AND OTHERS LOSE



## THE ELITE BARGAIN AND ECONOMIC POLICIES IN PAKISTAN: PAKISTAN: CAN ANYTHING BE FIXED

Islamabad, September 2023

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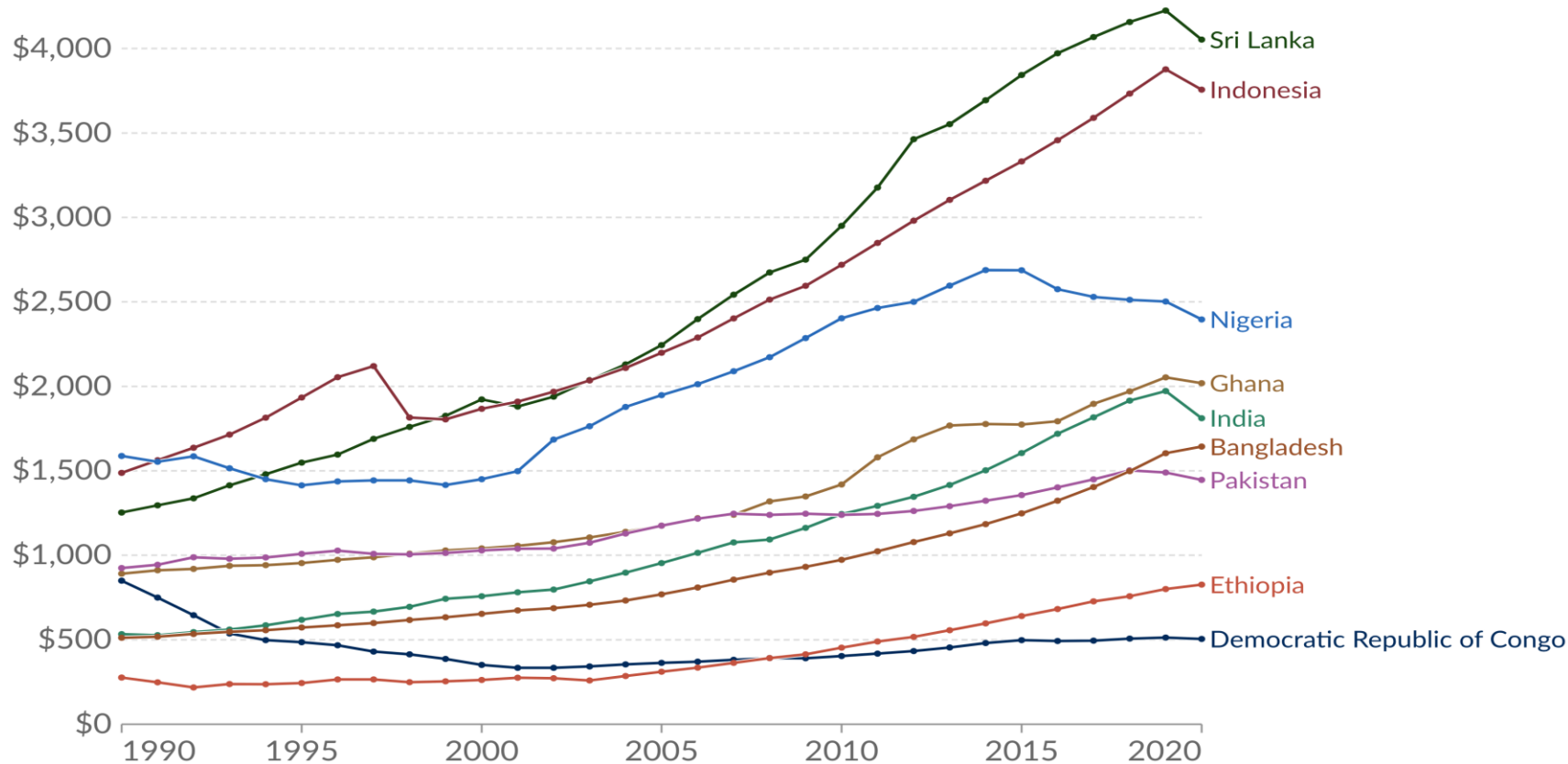
Some Facts

# Growth success and failure since 1990

## GDP per capita

Measured in constant US-\$, which adjusts for inflation.

Our World  
in Data



Source: World Bank and OECD

Note: Figures are given in constant US-\$. This means it is adjusted for inflation to allow for comparison over time, but not for price differences between countries.

OurWorldInData.org/economic-growth • CC BY

mean GDP per capita  
growth for lower middle  
income was 3.9%

### 'Winners' (>3.9% p.c.)

China: +12.7%

India: +6.3%

Bangladesh: +6.0%

Sri Lanka: +5.9%

Indonesia: +4.7%

Ghana: +4.2%

Ethiopia: +5.4%

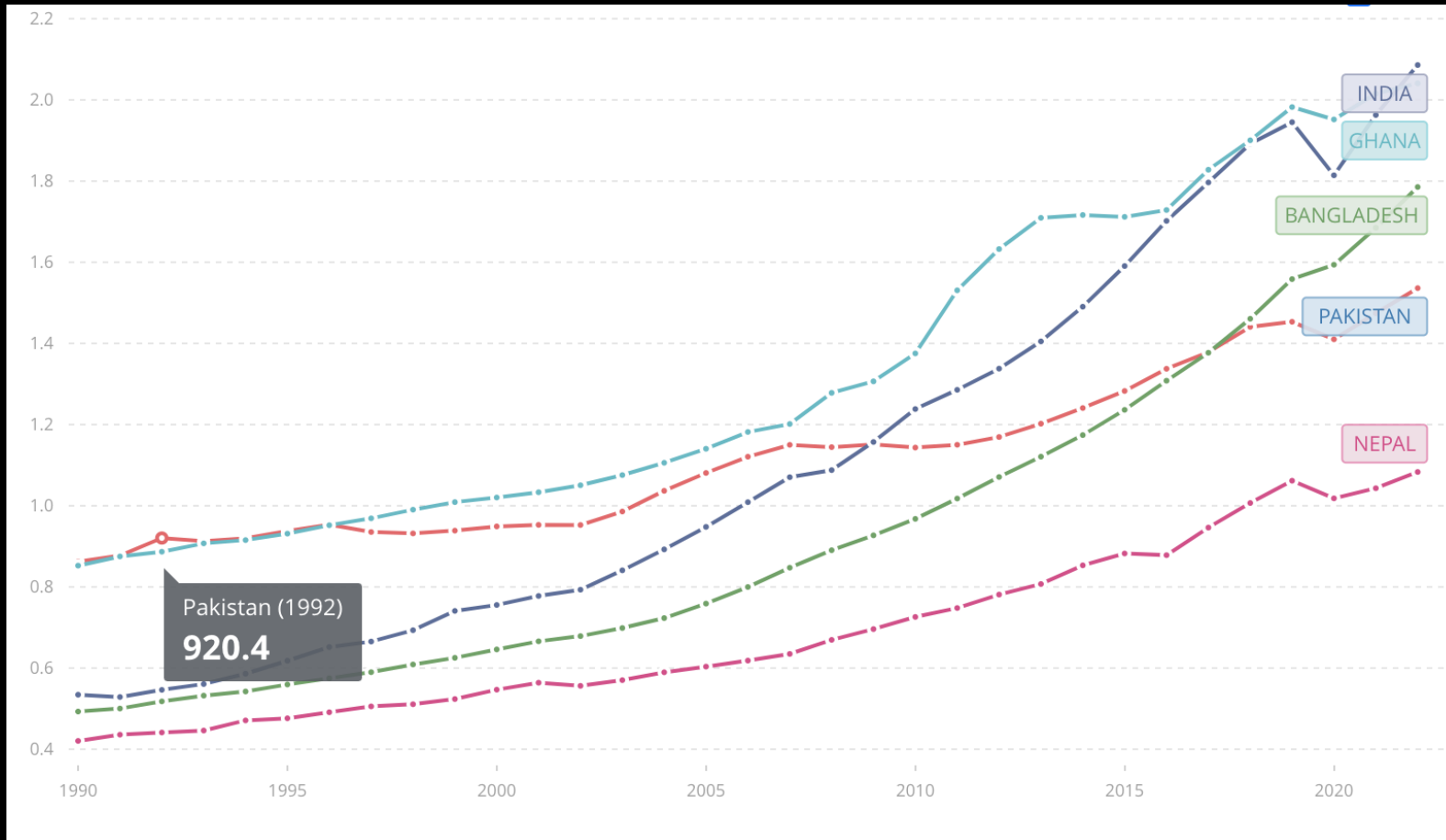
### 'Losers' 1990-2021

Nigeria: 2.0% per year

Pakistan: 2.6%

DRC: -2.3%

# Closer look at Pakistan



GDP per capita at constant 2015 prices

Pakistan

= was like Ghana in 1990:  
Now well below, and  
below India, Bangladesh

=even Nepal converging on  
Pakistan...

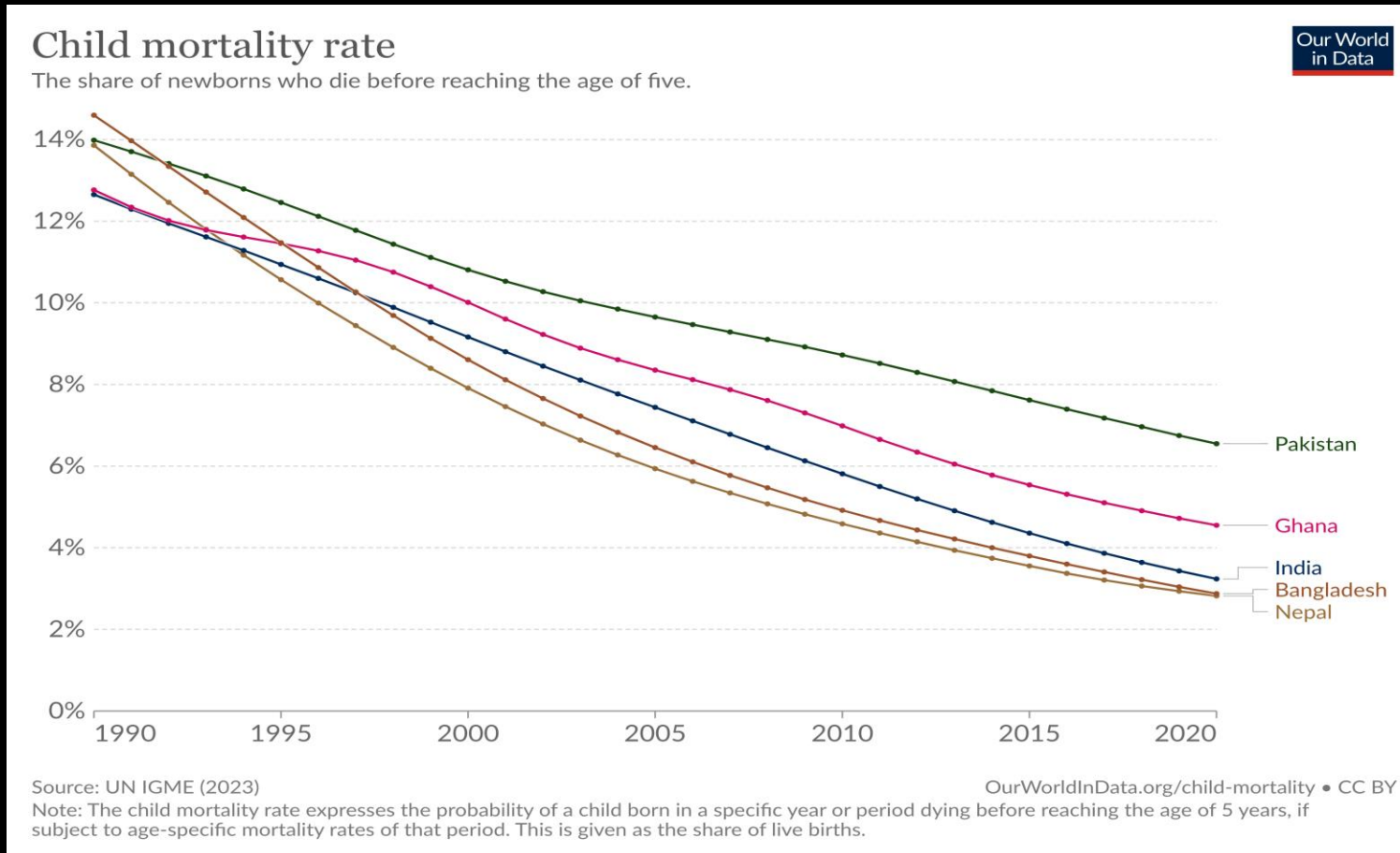
# Human development indicators lagging well behind (in progress)

Child mortality rate (% dying before age 5)

Similar in 1990

Now India, Bangladesh, Nepal about half Pakistan

African countries progressing faster than Pakistan!



How to understand these differences?

Why are some countries making substantial progress and not others?

Indonesia, China, Bangladesh, India, Ghana: very different from each other

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# Diagnosis? Common aspects of success or failure?

- **very imperfect places**, e.g. economic governance and corruption
- **diverse political systems** (dictators, autocracies, democracies, ...)
- **rather diverse economic policies and strategies**
  - “We know the ingredients, but we don’t know the recipe...”
  - Reasonable policies : *macroeconomic stability, correction when required, outward orientation (exports)*, but otherwise a broad set....
  - Don’t stick to unreasonable policies!

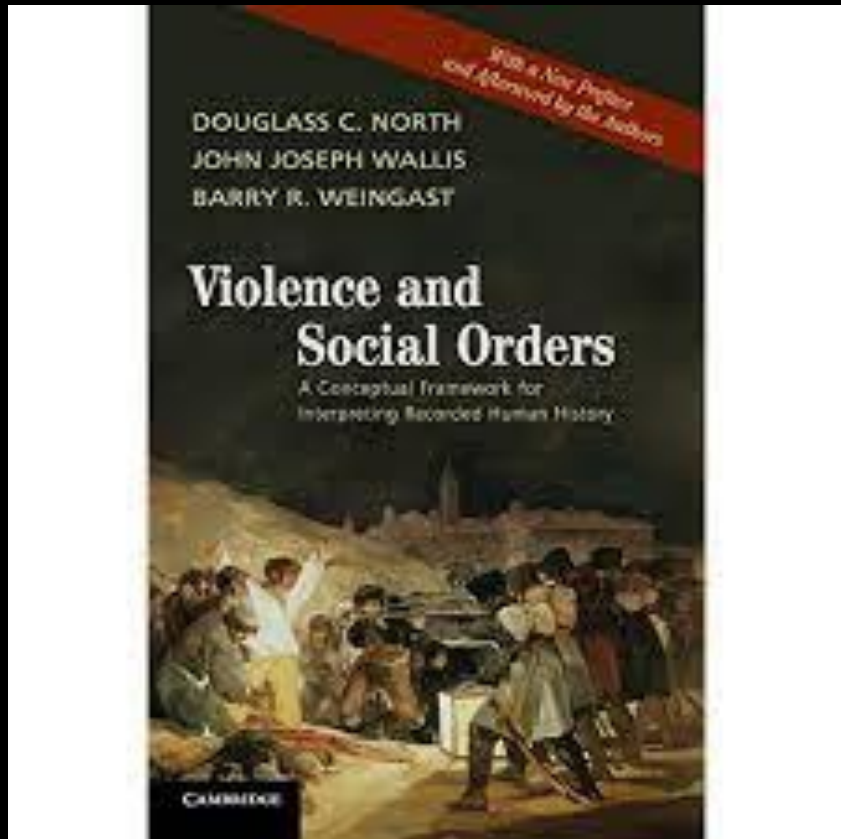


Key question?

Why do some countries seem to employ “unreasonable” policies  
or cannot sustain “reasonable” policies?

The role of the elite bargain

# The origin of the state



A [...] state manages the problem of violence by forming a dominant coalition that limits access to valuable resources – land, labor, and capital – or access to and control of valuable activities – such as trade, worship, and education – to elite groups.

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Think of a state as an elite bargain amongst those with power or influence, → the elite are those with power and influence: politics, business, military, civil servants, intellectuals,...

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Think of a state as an elite bargain amongst those with power or influence, → the elite are those with power and influence: politics, business, military, civil servants, intellectuals,...

It is at a minimum a coalition for peace and stability.

It involves a political deal – who controls the state – and an economic deal – who has access to resources and their distribution.

# Elite bargains: some possible objectives

- A kleptocracy
- A patronage-based elite bargain (often with clientelist methods)



An elite bargain for development

# How to get/restore growth and development? Through a development bargain

You need an elite bargain that involves a shared  
commitment to growth and development





# How to get growth and development? Through a development bargain



Success requires an elite bargain that involves a sufficiently strong shared commitment to growth and development

Why would the elite have these objectives?

- Out of conviction
- As part of seeking legitimacy
- As part of maximizing rents

IT IS A GAMBLE!



# Pakistan's Elite Bargain

*It isn't Cricket (or is it?)*



# Pakistan's elite bargain?

Think of a state as an elite bargain amongst those with power or influence,

→ the elite are those with power and influence: politics, business, military, civil servants, journalists, intellectuals,... and a dominant coalition emerges to control the state.

What is that dominant coalition in Pakistan? What does their 'deal' look like?

# Pakistan's elite bargain is focused on 'just-enough' stability for status-quo

- (1) **History**: sets of families (landlords, traders) with elite bargain focused on status quo
- (2) **"Guaranteed by army"** : control the elite bargain – they guarantee its stability, and control access to resources, rents, and the state
- (3) A **clientelist-patronage state**, but with fierce **competition on who should control** the patronage (political polarization and occasional attempts to 'enter')

= **common interest for status quo and not common purpose for growth** with winner takes all competition, and economy run as a zero-sum game

# *Pakistan's elite bargain isn't Cricket (or is it?)*



- Army/establishment:

- Politicians:

- Profits:

- Public:

# *Pakistan's elite bargain isn't Cricket (or is it?)*



- **Army/establishment:**

- Selectors of captains and teams
- Umpire the game themselves
- Rewrite the rules of cricket to suit

- **Politicians:**

- play the game with plenty of match-fixing and sledging

- **Profits:**

- shared between the captains, and the selectors and umpires

- **Public:**

- Pay for the tickets and subscription
- Can selected the-man-of-the-match
- But all rest is just a show

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- **Profits:**

- **Public:**



# The Political Economics of the Elite Bargain

A growth-based economy – centered around sufficient outward, market and investment incentives with reasonable macro stability?

A status-quo economy --- centered around patronage and reward for loyalty?

A **consumption & low investment economy of traders, real estate and protected groups**

- Who is taxed or subsidized matters, not what, and is part of the patronage-clientelist equilibrium
- Inward orientation and control regimes to protect some groups and their capital
- Large part of private and SOEs living off these distortions
- Corruption? Just one symptom – in world of endless and far more costly ‘legal’ rent-seeking

**Requires repeated finance!**

# Running the economy as a zero-sum game...



With a growing patronage burden – need oil!



Running the economy like a Middle-Eastern or North African economy (as a rentier economy)

But without the oil!

Dependent on external finance!

# Why does/can the elite make 'unreasonable' choice?

## (1) Growth and development is not core motivation of dominant political class nor of the military

- Dare to interpret all economic policies as driven by quest to keep power, including to all sufficient instability around the quest to gain power to control the clientelist state)
- Growth and development would DISRUPT this status quo!

## (2) Capability of Public Administration is not the problem.

- Low degree of implementation of economic reform is part of the same 'political economy' equilibrium
- Obsession with quick 'technical' fixes (including of those who mean well) is also linked to perception of long-horizon actions have zero change of success.

(3) Note: international community for decades was happy to pay for stability (military/politics) even at costs of growth and development... and little difference in apparent behaviour from China or West?

Is this time different?  
Can it be fixed?

# What to do? How to 'fix' it? Some lessons.

(1) Experience teaches that **'crisis' can be moment.**

- Eg India 1990s, Bangladesh 1990s, Indonesia 1970s, China 1979.
- Pakistan is in crisis now.

(2) **Needs common ground and purpose.** Most reforms fail because short-run "hurts" too much and easily exploited. Tends to be linked to 'legitimacy' and **some common purpose across leading groups.**

- E.g. Sri Lanka in 2023 ('undermine') vs Mauritius in 1980s ('overcome').

(3) **No quick fix.** Tinkering, new finance, etc just delays and makes reform more costly. Getting basics right matters...

# What is required?

(1) **What? No shortcut to building common ground across politics (and others such as military).**

- Based on shared recognition: status quo is untenable and hurts Pakistan. And even elite is losing now.

(2) **Who? Not simply about politicians (and journalists) – involve business community, civil society, intellectuals, journalists across divides...**

- Those in **business community or youth generation** that would gain from growth and more outward orientation could be key.

(3) **Does not mean: no more political contestation** – India or Bangladesh or Ghana all had this –

- but need for **some common ground on centrality of growth and development...** India in the 1990s: all parties saw benefits in the end!

All the elephants have to be in the room





# What can be done **now**?

(1) Do the **required basic reforms with politics and sustainability in mind**  
Can measures **survive politics**? How to work on this?

(2) **Build longer-term consensus around key features**

- Creation of reform: eg. Bangladesh
- Communication and ownership: eg. India
- Credibility building: eg. Singapore
- Commitment devices: eg. Iran
- Consistency and persistence: eg. Mauritius

# Conclusion

- **Growth and development turn arounds happen!**
  - Gunnar Myrdal on Indonesia, or James Meade on Mauritius or Hindu Growth Rate
- But there is no **short-cut**: politics and economic policies need to be aligned = around some general common purpose on long-term growth and development or they will not be implemented
- Meanwhile: **economic policies need to understand political equilibria (they never are just technical)**
  - Go for policies that help to showcase benefits from
  - or set incentives for the emergence of a better elite bargain for growth and development.

Time to unchain the Pakistan economy and let it live like other elephant economies



Kaavan

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